THE LEGISLATIVE ASSEMBLY OF
BRITISH COLUMBIA

ANNUAL SUMMARY OF ACTIVITIES

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SECOND SESSION, THIRTY-EIGHTH PARLIAMENT

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LEGISLATIVE ASSEMBLY
PROVINCE OF BRITISH COLUMBIA

February 2, 2007

To the Honourable
Legislative Assembly of the
Province of British Columbia

Honourable Members:

I have the honour to present herewith the Report of the Select Standing Committee on Public Accounts for the 2nd Session of the 38th Parliament.

The Report covers the work of the committee related to its responsibilities under the *Auditor General Act*.

Respectfully submitted on behalf of the Committee,

Rob Fleming, MLA
Chair

Composition of the Committee

Members

Rob Fleming, MLA	Chair	Victoria-Hillside
Joan McIntyre, MLA	Deputy Chair (from December 8, 2006)	West Vancouver-Garibaldi
John Yap, MLA	Deputy Chair (to December 8, 2006)	Richmond-Steveston
Harry Bains, MLA	Surrey-Newton	
Iain Black, MLA	Port Moody-Westwood	
Ron Cantelon, MLA	Nanaimo-Parksville	
David Chudnovsky, MLA	Vancouver-Kensington (from September 19, 2006)	
Adrian Dix, MLA	Vancouver-Kingsway (to September 19, 2006)	
Guy Gentner, MLA	Delta North (from September 19, 2006)	
Randy Hawes, MLA	Maple Ridge-Mission	
Norm Macdonald, MLA	Columbia River-Revelstoke (to September 19, 2006)	
Mary Polak, MLA	Langley	
Bruce Ralston, MLA	Surrey-Whalley	
John Rustad, MLA	Prince George-Omenica	
Ralph Sultan, MLA	West Vancouver-Capilano	
Diane Thorne, MLA	Coquitlam-Maillardville	

Clerk to the Committee

Craig James, Clerk Assistant and Clerk of Committees

Committee Researcher

Josie Schofield, Committee Research Analyst

TERMS OF REFERENCE

On February 20, 2006, the Legislative Assembly agreed:

1. That the reports of the Auditor General of British Columbia deposited with the Speaker of the Legislative Assembly during the Second Session of the Thirty-eighth parliament be deemed referred to the Select Standing Committee on Public Accounts, with the exception of the report referred to in section 22 of the Auditor General Act, which is referred to the Select Standing Committee on Finance and Government Services. And, in addition, that the following reports of the Auditor General of British Columbia be referred to the Select Standing Committee on Public Accounts:
   a. Government of BC and Office of the Auditor General Report *An Assurance Program for BC: A Progress Report on the February 2002 Recommendations of the Public Accounts Committee of BC Related to Building Better Reports* (September 2004).
   b. Auditor General Report No. 6, 2004/2005 *Leading the Way: Adopting Best Practices in Government Financial Reporting -- 2003/2004* (November 2004).
   c. Auditor General Report No. 8, 2004/2005 *Follow-up of 2002/2003 Report 5: Managing Contaminated Sites on Provincial Lands* (November 2004).
   d. Auditor General Report No. 9, 2004/2005 *Follow-up of Two Health Risk Reports* (December 2004).
   e. Auditor General Report No. 12, 2004/2005, *Third Follow-up Report of Management Consulting Engagements in Government* (March 2005).
   f. Auditor General Report No. 13, 2004/2005, *Building Momentum for Results-based Management: A Study about Managing for Results in British Columbia* (March 2005).
   g. Auditor General Report No. 1, 2005/2006, *Follow-up of the Recommendations of the Select Standing Committee on Public Accounts contained in its Fourth Report of the 3rd Session of the 36th Parliament: Earthquake Preparedness; Performance Audit* (May 2005).
   h. Auditor General Report No. 2, 2005/06, *Joint Follow-up of 2001/2002: Report 1 Managing Interface Fire Risks and Firestorm 2003 Provincial Review* (May 2005).
   i. Auditor General Report No. 3, 2005/2006, *Audit of the Government's Corporate Accounting System: Part 1* (June 2005).

2. That the Select Standing Committee on Public Accounts be the committee referred to in sections 2, 6, 7, 10, 13 and 14 of the *Auditor General Act*.

In addition to the powers previously conferred upon the Select Standing Committee on Public Accounts, the Committee be empowered:

(a) to appoint of their number, one or more subcommittees and to refer to such subcommittees any of the matters referred to the Committee;

(b) to sit during a period in which the House is adjourned, during the recess after prorogation until the next following Session and during any sitting of the House;

(c) to adjourn from place to place as may be convenient; and

(d) to retain personnel as required to assist the Committee,

and shall report to the House as soon as possible, or following any adjournment, or at the next following Session, as the case may be; to deposit the original of its reports with the Clerk of the Legislative Assembly during a period of adjournment and upon resumption of the sittings of the House, the Chair shall present all reports to the Legislative Assembly.

THE WORK OF THE COMMITTEE

The work of the all-party Select Standing Committee on Public Accounts (the PAC) in the second session has focused mainly on carrying out the statutory duties assigned by the House. For example, during the winter and spring of 2006, 21 meetings were held in regard to the search for a new Auditor General, pursuant to sections 2 and 7 of the *Auditor General Act*.

Subsequently, the PAC held four subcommittee meetings (June 2, 2006; September 11, 2006; October 24, 2006 and January 22, 2007) and two meetings of the entire Committee (December 8, 2006, February 2, 2007). At the December 8 meeting, the Chair welcomed the province's new Comptroller General, Ms. Cheryl Wenezenki-Yolland.

The Chair and Deputy Chair attended the 27th Annual Conference of the Canadian Council of Public Accounts Committees, which was held in Charlottetown, Prince Edward Island from September 10 to 12, 2006. They were accompanied by the Clerk to the Committee and the Committee Research Analyst.

The Chair also participated as a panellist at two conferences held in Victoria: the 2006 summit on results-based management organized by CCAF-FCVI Inc. (May 8 and 9, 2006); and the Infonex conference on performance management for the public sector (January 16 and 17, 2007).

During the second session, the PAC reviewed two audit reports tabled by the Auditor General with the Speaker of the Legislative Assembly. These reports relate to the estimates for the 2010 Olympics and to the management of the province's PharmaCare program.

On January 22, 2007, the subcommittee decided not to review three reports that have been, or are in the process of being, superseded by new information — namely, the joint progress report on the February 2002 PAC recommendations related to performance reporting (September 2004), and the two audit reports relating to adopting best practices in government financial reporting (November 2004 and March 2006). In addition, the subcommittee excluded the opinion piece prepared by the former Auditor General (May 2006).

By the end of the second session, the PAC had not reviewed the following reports tabled by the Auditor General during the past three fiscal years:

Audit Reports:

Report No. 13, 2004/2005: *Building Momentum for Results-based Management: A Study about Managing for Results in British Columbia* (March 2005)

Report No. 3, 2005/2006: *Audit of the Government's Corporate Accounting System: Part 1* (June 2005)

Report No. 10, 2005/2006: *Building Better Reports: Our Assessment of the 2004/05 Annual Service Plan Reports of Government* (March 2006)

Report No. 3, 2006/2007: *Treaty Negotiations in British Columbia* (November 2006)

Report No. 4, 2006/2007: *Province of British Columbia Audit Committees: Doing the Right Things* (December 2006)

Report No. 5, 2006/2007: *Audit of Government's Corporate Accounting System: Part 2* (December 2006)

Report No. 6, 2006/2007: *Monitoring the Government's Finances* (December 2006)

Report No. 7, 2006/2007: *Government's Post-secondary Expansion – 25,000 Seats by 2010* (December 2006)
Report No. 8, 2006/2007: *Changing Course – A New Direction for British Columbia's Coastal Ferry System* (December 2006)

Report No. 9, 2006/2007: *Seeking Best Practices in Financial Reporting: Report on the Province's 2005/2006 Public Accounts* (January 2007)

Follow-up Reports:

Report No. 8, 2004/2005: Follow-up of 2002/2003 Report 5: *Managing Contaminated Sites on Provincial Lands* (November 2004)

Report No. 9, 2004/2005: Follow-up of Two Health Risk Reports: *A Review of Performance Agreements; Information Use in Resource Allocation* (December 2004)

Report No. 12, 2004/2005: Third Follow-up of 2000/2001 Report 4: *Management Consulting Engagements in Government* (March 2005)

Report No. 1, 2005/2006: Follow-up of the Recommendations of the Select Standing Committee on Public Accounts contained in its Fourth Report of the 3rd Session of the 36th Parliament: *Earthquake Preparedness; Performance Audit* (May 2005)

Report No. 2, 2005/2006: Joint Follow-up of 2001/2002 Report 1: *Managing Interface Fire Risks* and *Firestorm 2003 Provincial Review* (May 2005)

Report No. 7, 2006/2007: Follow-up of 2003/2004 Report 4: *Alternative Payments to Physicians: A Program in Need of Change* (February 2006)

Review Engagement Report:

Partnerships BC Project Report: *Achieving Value for Money Sea-to-Sky Highway Improvement Project* (December 20, 2005)

Copies of the Auditor General's reports are available at: http://bcauditor.com/AuditorGeneral.htm.

Minutes and transcripts of committee meetings and the reports of the Public Accounts Committee are available on the Legislative Assembly's website at: www.leg.bc.ca/cmt/.

AUDITOR GENERAL SEARCH PROCESS

INTRODUCTION

During the first two sessions of the 38th Parliament (September 12, 2005 – February 13, 2007), the House instructed the Public Accounts Committee to conduct a search for and unanimously recommend to the Legislative Assembly a person to be the next Auditor General for the province, pursuant to section 2 of the *Auditor General Act*. The term of office of the incumbent expired on May 2, 2006.

MEETINGS SCHEDULE

The search process covered the period between January 31 and May 31, 2006. In total, 21 meetings were conducted for the following purposes:

Tuesday, January 31, 2006	Decision to undertake an open competition Decision to hire executive search firm Appointment of subcommittee to facilitate procurement (Public Accounts Committee)
Monday, February 27, 2006	Evaluation of bids (subcommittee)
Wednesday, March 1, 2006	Review of subcommittee report Appointment of executive search firm (Public Accounts Committee)
Thursday, March 2, 2006	Development of search plan (Chair and Deputy Chair)
Thursday, March 9, 2006	Development of search plan (Chair and Deputy Chair)
Thursday, March 23, 2006	Briefing by executive search firm Election of screening subcommittee (Public Accounts Committee)
Thursday, April 6, 2006	Briefing (screening subcommittee)
Wednesday, April 19, 2006	Conference call (screening subcommittee)
Wednesday, April 26, 2006	Conference call (screening subcommittee)
Thursday, April 27, 2006	Briefing by executive search firm Approval of interview plan (Public Accounts Committee)
Tuesday, May 2, 2006	Long-list candidate interviews (screening subcommittee)
Wednesday, May 3, 2006	Long-list candidate interviews (screening subcommittee)
Thursday, May 4, 2006	Conference call (screening subcommittee)
Monday, May 8, 2006	Decision to appoint an acting Auditor General Short-list candidate interviews (Public Accounts Committee)
Tuesday, May 9, 2006	Deliberations (Public Accounts Committee)
Friday, May 12, 2006	Deliberations (Public Accounts Committee)
Monday, May 15, 2006	Deliberations (Public Accounts Committee)
Wednesday, May 17, 2006	Deliberations (Public Accounts Committee)

Thursday, May 18, 2006	Decision to postpone process to appoint an acting Auditor General (Public Accounts Committee)
Tuesday, May 23, 2006	Conference call (screening subcommittee)
Wednesday, May 31, 2006	Short-list candidate interview Decision to appoint Arn van Iersel as acting Auditor General (Public Accounts Committee)

Hiring of Executive Search Firm

At its January 31, 2006 meeting, the Public Accounts Committee met in camera to consider a process to recommend to the House an Auditor General for the province. It made two decisions: first, there was unanimous agreement to undertake an open competition; and, second, by a motion approved on division, the Committee decided to use an executive search firm to assist in the recruitment of qualified candidates. A subcommittee was struck to facilitate the procurement of an executive search firm, via a competitive bid process. The subcommittee comprised: Rob Fleming, Chair; John Yap, the-then Deputy Chair; and Ms. Joan McIntyre, MLA.

The subcommittee, with the assistance of the Office of the Clerk of Committees, prepared the Request for Proposal (RFP). The RFP was distributed to executive search firms with experience in recruiting senior public sector officials.

Six bids were submitted by the deadline (February 24, 2006). The subcommittee gave careful consideration to each bid, using four criteria as the basis for evaluation — capacity to do public sector executive placements, competitive pricing, flexibility of timelines, and quality of presentation. On March 1, the Public Accounts Committee endorsed, by a motion approved on division, the subcommittee's recommendation to use the services of the Vancouver office of Ray & Berndtson, Canada's largest-retained executive search firm, to assist in the candidate selection process.

Candidate Selection Process

At its meeting on March 23, 2006, the Public Accounts Committee established a screening subcommittee consisting of the Chair and Deputy Chair for the purposes of liaising with the executive search firm throughout the candidate selection process. In-house procedural advice and administrative support was provided by the Office of the Clerk of Committees to ensure that the search for the important position of Auditor General was comprehensive and met the requirements of confidentiality and fairness adhered to by other parliamentary appointment committees.

The executive search firm, in conjunction with the screening subcommittee and the Office of the Clerk of Committees, carried out a variety of responsibilities including: creation of candidate and organization profiles, development of selection criteria, advertisement program preparation, applicant screening, interview format preparation, reference checks and the compilation of other documentation related to the candidate selection process.

During the candidate identification phase, the executive search firm contacted 282 individuals in related roles to encourage their interest and/or to seek their recommendations on others who may be qualified for the position. In March 2006, an advertisement was also placed in ten daily newspapers within British Columbia and the *Globe and Mail*, as well as on a variety of related websites, inviting applications for the position of

Auditor General from people familiar with the public sector who possess senior-level experience in auditing and management.

In response to the advertising program, 42 people expressed interest in the position — 25 were residents of British Columbia, 15 resided in other provinces and 2 came from Europe. Of the applications received, 15 individuals declared their candidacy for the position of Auditor General. The executive search firm carried out the initial screening to identify those applicants whose qualifications most closely related to the requirements of the position.

The executive search firm then submitted its report on the preliminary screening process to committee members. On April 27, 2006, the Public Accounts Committee unanimously approved a list of seven candidates to be interviewed initially by the screening subcommittee. In the interviews, conducted on May 2 and 3, the Chair and Deputy Chair asked each candidate a standard set of questions to ensure consistency over the range of topics explored — relevant experience, technical knowledge and expertise, leadership and personal qualities.

A short list of candidates from the screening subcommittee's report on the interviews resulted in three individuals being re-interviewed by the entire Public Accounts Committee on May 8, 2006. Prior to the interviews, the candidates were asked to describe in writing their vision of the role of an Auditor General for the first three years of their term and then to identify the key strategic issues that need to be addressed and how they would approach each strategic issue.

Once these interviews were concluded, the Public Accounts Committee diligently considered the qualifications of the finalists and assessed their prospective impact upon the Office of the Auditor General, and their ability to meet the accountability requirements of the Legislative Assembly and to carry out the mandate of the *Auditor General Act*. The deliberations took place on May 9, 12, 15, 17 and 18. At the latter meeting, the Committee decided, by a motion approved on division, to postpone the process to appoint an acting Auditor General, outlined in section 7(1) of the Act.

On May 31, 2006, the Public Accounts Committee interviewed another short-listed candidate. Since committee members were unable to reach unanimous agreement on any of the finalists, the decision was made, by a motion approved on division, to appoint an acting Auditor General.

COMMITTEE DECISION (MAY 31, 2006)

The Public Accounts Committee appointed Mr. Arn van Iersel, CGA as acting Auditor General, pursuant to section 7(2) of the *Auditor General Act*.

UPDATE (FEBRUARY 2, 2007)

On February 2, 2007, the Public Accounts Committee was advised of a letter of resignation submitted by the acting Auditor General to the Speaker, stating his intention to step down from the position on June 1, 2007.

Consequently, the Chair and Deputy Chair were designated as a subcommittee to begin the search for a new Auditor General, whom the Public Accounts Committee could unanimously recommend to the Legislative Assembly.

Auditor General's Financial Statement Audit Coverage Plan for Fiscal Years 2007/2008 through 2009/2010

Section 10 of the *Auditor General Act* stipulates that the Auditor General must provide to a committee of the Legislative Assembly each year a plan for the appointment of auditors for government organizations and trust funds for the following three fiscal years. In addition, section 14 of that Act states that the Auditor General, with the prior consent of the committee, may agree to be appointed, for a term specified by the committee, as the auditor of an organization other than a government organization or trust fund.

Under the terms of reference, adopted by the House on February 20, 2006, the Public Accounts Committee was identified as the committee to review and approve the financial statement audit coverage plan and to endorse the auditing of organizations outside the government reporting entity.

The PAC conducted its review of the plan at the meeting on December 8, 2006, with staff from the Office of the Auditor General (OAG) in attendance. Members also received a briefing from the acting Auditor General on the OAG business and financial plan and reviewed the follow-up process.

Summary of Proposed Plan

The Assistant Auditor General, Financial Audit explained that the financial statement audit coverage plan is a subset of the office's broader business and financial plan for 2007/08, and that it focuses on the office's fee-for-service audit work (not the 19 ministry audits financed by the office's annual appropriation). The detailed plan in Appendix A of the OAG report proposes three levels of audit involvement for the 146 organizations within the government reporting entity.

The first level is limited involvement, where there is no fieldwork and only a selective review of other auditor files (106 organizations). The next level is oversight, where OAG auditors review other auditors' plans and files and attend some or all audit committee meetings (18 organizations). Finally, there are direct audits of an organization's financial statements by the office's own staff or contracted firms (22 organizations). Other considerations in determining appropriate levels of audit coverage include: a select sample of similar-type entities (e.g. health authorities); risk-based selection of dissimilar-type entities (e.g. Crown corporations); and the office's capacity to staff direct audits.

The witness also reported on the significant plan changes that are identified in Appendix B. These include reduced coverage in the post-secondary sector and for health authorities, and continued direct involvement with Crown corporations (with the possibility of continuing direct audit in the case of Partnerships British Columbia).

Turning to the implications on the office's budget, the witness informed the Committee that a modest increase in the financial statement audit fees is anticipated for fiscal 2007/08 ($2.2 million), as a result of implementing higher auditing standards mandated by the profession. He reported that the costs recovered from auditees are calculated based on charge-out rates for assigned staff and an overhead component.

The Assistant Auditor General, Financial Audit then asked the Public Accounts Committee to endorse the four recommendations listed on page 2 of the OAG report:

1. Approve the Financial Statement Audit Coverage Plan for the fiscal years 2007/08 through 2009/2010, as shown in Appendix A of the report.

2. Consent to the Auditor General continuing as the appointed auditor for 14 government organizations and trust funds, where the engagement term exceeds five consecutive fiscal years, as listed on pages 7-8 of the report.

3. Consent to the Auditor General being appointed auditor for two organizations outside the government reporting entity, as listed on page 10 of the report — namely, WorkSafeBC and the Provincial Employees Community Services Fund.

4. Endorse the Auditor General's continued administration of the auditor appointment process, as described in the plan.

Committee Review

Some committee members expressed concern about the proposed audit coverage of Crown corporations — in particular, the lack of rotation for this sector during the next three fiscal years and the moderate level of audit involvement planned for the British Columbia Lottery Corporation. They learned from the Assistant Auditor General, Financial Audit that a rotational approach is not used in the case of large entities that are not homogenous, where the risks are unique and not likely to change. In response to a follow-up question, the acting Auditor General explained that the proposed plan represents the minimum coverage that needs to be in place in order to express a professional opinion on the summary financial statements, and that the choice of the level of audit involvement is not influenced by budgetary constraints.

Others sought clarification regarding the decision to reduce the level of audit involvement for health authorities. They learned from the Assistant Auditor General, Financial Audit that the proposed changes for the health authorities from the prior year plan simply mean that other auditors, rather than the OAG staff, will review the summary financial statements, using professional standards.

Another theme of the committee review focused on the financial statement audit fees charged by the office for direct audits or oversight involvement. Some Members felt that these fees were "far too low" since they do not include the profit element that private sector accounting firms build in to their costing. They asked the acting Auditor General to provide follow-up information at the meeting on December 11, 2006 of the Select Standing Committee on Finance and Government Services, the parliamentary committee that approves the basis on which the OAG may charge fees.

Members also asked about the extent of auditing undertaken by the OAG of organizations outside the government reporting entity — such as the British Columbia Safety Authority and the British Columbia Investment Management Corporation. They learned from the acting Auditor General that the office monitors each year the status of each non-government organization and makes sure that any provincial dollars are well spent.

Committee Decision

The Public Accounts Committee approved the four recommendations listed above and on page 2 of the OAG report, as required by sections 10 and 14 of the *Auditor General Act*.

AUDITOR GENERAL REPORT NO. 2, 2006/2007:

THE 2010 OLYMPIC AND PARALYMPIC WINTER GAMES: REVIEW OF ESTIMATES RELATED TO THE PROVINCE'S COMMITMENTS

The Public Accounts Committee met on February 2, 2007 to consider the acting Auditor General's review of the latest estimates of the province's costs to stage and host the 2010 Olympic and Paralympic Winter Games (the 2010 Games). The Committee heard presentations by the Office of the Auditor General (OAG); the British Columbia 2010 Olympic and Paralympic Winter Games Secretariat (BC Secretariat), an agency within the Ministry of Economic Development portfolio; the Ministry of Finance; the Ministry of Public Safety and Solicitor General; and the Vancouver Organizing Committee for the 2010 Olympic and Paralympic Winter Games (VANOC), a federally chartered not-for-profit organization tasked with developing venues and hosting the Games.

SUMMARY OF REPORT

Since the province is investing significant resources in the 2010 Games, the OAG decided to conduct regular reviews of the reasonableness of the province's cost estimates to undertake the Games. The first report of January 2003 was prepared before Vancouver was awarded the Games. After examining the initial estimated costs of staging the Games, the review team identified three key areas for a successful Olympics: management of contingencies; focus on revenue and economic impacts; and exemplary management. These three conclusions were endorsed by a previous Public Accounts Committee in its 2004 annual report.

At the February 2 meeting, following introductory remarks by the acting Auditor General, the project leader presented a summary of the OAG report released in September 2006. He stated that the purpose of the second review is: to update the 2003 report on the bid estimates; to highlight the province's management efforts to date; and to report to the public on the complete Games costs (as of August 31, 2006) and benefits. The report shows that, at a minimum, the cost to provincial taxpayers could be $1.5 billion of the estimated net Games cost ($2.5 billion).

The project leader then summarized the seven review findings, with recommendations for the province to consider:

1. Certain key venue agreements (Whistler Olympic Village, GM Place) need to be finalized as soon as possible.
2. Medical and security cost estimates need to be updated (from 2002).
3. A comprehensive definition of Olympic-related costs (based on the 2000 Sydney Games audit) needs to be established by the province (key exclusions are: Callaghan Valley Road, BC Secretariat, Sea-to-Sky Highway upgrade, and Crown corporation sponsorships).
4. Foreign exchange risks need more attention (need to implement a comprehensive hedging strategy for foreign-source revenues).
5. Stronger oversight is required (due diligence review and public release of VANOC's future business plans).
6. A coordinated marketing effort for the 2010 Games is needed (involving the updating of 2002 economic benefit estimates).
7. Post-Games legacy plans for venues need to be considered.

Summary of Government's Response

The Chief Financial Officer of the BC Secretariat responded on behalf of government. He presented an overview of the respective roles and responsibilities of the province, the government of Canada and the VANOC, as well as other partners responsible for certain venue, facilitating or operating, and sponsorship activities. Their key responsibilities and obligations are set out in the multi-party agreement, signed by the different partners engaged in hosting the 2010 Games.

Next, the witness explained that the BC Secretariat is the primary oversight agency responsible for managing the province's $600-million direct commitment to fund venue construction and services to the Games. Included in the direct Games funding envelope is a significant contingency allowance to protect taxpayers from unforeseen costs, which now stands at $75.5 million after allocations from the original amount ($139 million) were made, including $55 million for the provincial share of increased construction costs.

Turning to the OAG report's first recommendation, the Chief Financial Officer stated that the government agreed that having all venue agreements in place is important and is working with the VANOC to finalize these agreements. He pointed out, however, that the province is not "the ultimate guarantor of the Games" as the OAG report claims; rather, it has guaranteed any financial shortfall of the VANOC to the International Olympic Committee.

With regard to the second recommendation, the witness reported that updating medical and security cost estimates is underway and will require significant operational planning by the Ministry of Health and the Ministry of Public Safety and Solicitor General respectively.

Re the third recommendation, the witness stated that the province has made it clear, via annual provincial budgets and other documents, that its incremental direct financial commitment to stage the 2010 Games totals $600 million. From the government's perspective, the inclusion of other Games-related cost items as Olympic costs in the OAG report is essentially a "subjective" judgement.

The witness also indicated that there is a difference of opinion regarding recommendation No. 4. He pointed out that the decision on whether to hedge is made by the VANOC, and that it has now implemented a hedging strategy, with advice from its own investment adviser. Regarding the $150 million revenue loss, there were conflicting views in 2003 about the direction of US exchange rates, and so the VANOC decided it would be imprudent to hedge for unknown amounts at a time of conflicting exchange rate forecasts.

Then, the Chief Financial Officer reported that the government agreed with recommendations Nos. 5 (re VANOC business plans) and 6 (re marketing of the 2010 Games). However, in the case of recommendation No. 7, the witness stated that the province will not be responsible for the post-Games operations of new venues in Whistler; instead, these facilities will be the responsibility of the not-for-profit Whistler Legacies Society.

Committee Inquiry

After hearing from the witnesses, the committee inquiry focused on the following topics: the accuracy of security cost estimates; the timing of a hedging strategy; the definition of Games-related costs; the delay in approving the VANOC business plan; and the adequacy of the VANOC contingency allowance.

Security Cost Estimates

After establishing that the preliminary RCMP estimate of security costs ($175 million) has not been updated since 2002, some committee members referred to the concerns about its accuracy voiced by the IOC chair and MPs serving on a federal parliamentary committee. They were informed by the Deputy Solicitor General that the province is "quite comfortable" with the estimate at this point, and that the province and the federal government will evaluate it, as they move closer to the Games.

Other Members asked the witnesses to clarify whether the province and the federal government would share the expense of an extra military presence, if required in terms of security, or if Ottawa would pay the full cost. The Deputy Solicitor General stated that combating international terrorist activity is clearly a federal responsibility; however, if the RCMP opts to include armed forces personnel in manning venue security, that could be included in the cost-sharing agreement.

Games-related Costs

Another theme of the committee inquiry focused on the government's response to the OAG report's third recommendation. Some Members expressed support for the government's definition of Games-related costs — in particular, the exclusion of the Sea-to-Sky Highway upgrade. However, other MLAs questioned the narrow scope of items included in the government's $600-million envelope. They asked the government witnesses why the construction of the Callaghan Valley access road to the new ski centre in Whistler is not deemed to be an Olympic-related cost. In response, the Ministry of Finance official described the access road as a legacy project and a key part of providing economic development opportunities for the Whistler area in the post-Games period.

Hedging Strategy

Some Members expressed support for the government's response to the fourth recommendation of the OAG report relating to the need to implement a comprehensive hedging strategy for foreign-source revenues. They pointed out that the VANOC now has a hedging strategy in place, and that the expertise of its financial advisers needs to be supported — even if the 2003 decision not to hedge may not have turned out to be the best advice, with the benefit of hindsight. In response, the acting Auditor General reiterated the importance of pinning down revenue sources as early as possible so that there can be some certainty regarding broadcasting and international sponsorships revenues.

VANOC Business Plan

Another theme of the committee inquiry related to the fifth recommendation of the OAG report. One committee member asked for clarification of the statement on page 16 of the BC Secretariat's presentation that the "VANOC has publicly committed to releasing its business plan once complete." After receiving such an assurance, he then inquired about the reason for the delay, citing the BC Secretariat's Progress Report of November 30, 2004 indicating that the VANOC would complete its first business plan by April 2005 (page 9), and then intended to revise the plan in September 2006 to incorporate learning from the 2006 Torino Games (page 19).

In response, the Chief Financial Officer reported that the BC Secretariat received the VANOC business plan in August 2005. Shortly afterwards, government received a request from the Vancouver Organizing Committee for additional capital funding to help with the venue construction program, a request that changed significantly the nature of the business plan. By the time government had developed a response to the capital funding request, the VANOC was well underway in developing version 2 of its business plan, which is now expected to be released in the coming weeks. The witness reported that the province intends to undertake a full due diligence review of the updated plan.

Learning that the BC Secretariat now has a performance and accountability agreement with the VANOC for managing capital costs, the acting Auditor General was asked for his opinion of this type of oversight initiative. He responded by describing the government's response to the report's fifth recommendation as "a positive step" on the province's part.

VANOC Contingency Allowance

Members also inquired how expectations concerning the VANOC contingency allowance are being managed in the current climate of escalating construction costs. They were informed by the VANOC official in charge of construction that the contingency of $66.8 million for overall venue construction is governed by the performance and accountability agreement with the province that determines at what point what amounts can be withdrawn. In addition, the VANOC board has to approve any allocation of that contingency, and the VANOC capital project team is dedicated to building the very best venues it can, under budget and on time.

In response to a follow-up question regarding potential cost overruns, the Chief Financial Officer of the BC Secretariat stated that the various partners involved in hosting the 2010 Games are all committed to the goal of having great Games at the lowest cost to the taxpayers and of providing the best long-term benefit to the communities.

Committee Decision

The Public Accounts Committee considered the seven recommendations and the government's response relating to the acting Auditor General's 2nd Report for 2006/07, *The 2010 Olympic and Paralympic Games: Review of Estimates Related to the Province's Commitments*. While the Committee reached no conclusion, the evidence presented by the OAG staff and the government witnesses during our inquiry helped to clarify the complexity of undertaking the 2010 Games.

AUDITOR GENERAL REPORT NO. 8, 2005/2006:
MANAGING PHARMACARE: SLOW PROGRESS TOWARD COST-EFFECTIVE DRUG USE AND A SUSTAINABLE PROGRAM

The Public Accounts Committee met on February 2, 2007 to consider the former Auditor General's audit of the province's PharmaCare program. The Committee heard presentations by the Office of the Auditor General (OAG) and the Ministry of Health.

SUMMARY OF REPORT

The OAG first reported on the PharmaCare program in July 1998, and its recommendations for improving the management of the cost of drug therapies and fostering appropriate drug use were endorsed by a previous Public Accounts Committee in its 5th report dated May 4, 1999.

At the February 2 meeting, the project leader presented an overview of the second OAG report on managing Pharmacare, which was released in March 2006. She began by pointing out the costs to provide the drug reimbursement program have increased each year since 1999/00 — with the exception of 2003/04 — reaching an estimated $900 million in 2005/06.

The witness then informed the Committee that the purpose of the audit conducted in 2005 was to determine how well the Ministry of Health manages PharmaCare to achieve its stated goal of providing a sustainable, evidence-based prescription drug insurance program that improves the health of British Columbians. The overall conclusion of the audit team was that progress towards cost-effective drug use and a sustainable program was being compromised by "insufficient management attention." Although BC PharmaCare has been a leader in implementing several initiatives (e.g. PharmaNet system, cost containment and drug utilization), progress has been slow to expand these useful initiatives to maximize their benefit — due to the lack of sufficient human resources, clear direction, appropriate performance measures and of accountability reporting.

The project leader then summarized the report's key recommendations urging the ministry to:

- update its strategic objectives, align objectives with actions, build its human resource capacity, and develop performance measures;
- streamline the drug assessment process to help get cost-effective drugs on the formulary on a timely basis and reassess drugs already on the formulary;
- explore or implement ways to ensure best prices paid for the drugs that it covers;
- utilize PharmaNet information for physicians, increase support for physicians and others to promote cost-effective prescribing practices and appropriate drug use, and involve physicians in developing innovations/initiatives such as PharmaNet and the reference drug program.

SUMMARY OF GOVERNMENT'S RESPONSE

A senior official from the Ministry of Health presented the government's response. After reviewing briefly some positive assessments of the Pharmacare program, he reported that work on many of the actions recommended in the OAG report is now underway to ensure the program's sustainability. To build capacity, the ministry's new pharmaceutical services division now has a dedicated ADM position, which he occupies, and reorganization is taking place to meet business needs. The division is also updating the strategic plan that

aligns programs with goals, objectives and specific actions. As well, a performance measurement system is under development to provide the type of information available in the province's contract with Maximus BC, the company that runs the Medical Services Plan and PharmaNet systems.

Turning to the second key recommendation, the ADM stated that the ministry plans to publish an implementation plan soon to streamline the drug assessment process conducted by the Therapeutics Initiative (TI) — an agency based at UBC that determines the effectiveness of new drugs.

Regarding the purchasing of drugs at reasonable cost, the division plans to establish a business management branch that will have the capacity by early 2007 to negotiate and tender contracts with drug manufacturers.

To perform cost-effective prescribing and drug use, the ministry has also expanded access to PharmaNet to include practitioners; and an e-health strategy is underway. As well, the TI provides critical appraisal of literature and educational programs for physicians/pharmacists.

Committee Inquiry

After hearing from the witnesses, the committee inquiry focused on the following topics: the management of the drug approval process and the need for an independent evaluation of the Maximus BC contract. One committee member also requested follow-up information from the ADM regarding the status of the supply chain project.

Drug Assessment Process

After acknowledging the merits of the PharmaCare program, some committee members questioned the self-congratulatory tone of the ministry's response in light of the OAG report's findings that the management of the program lacks a results-based approach. They then raised the specific complaints voiced by constituents and health professionals regarding the inflexible, "non-responsive attitude" of the TI agency towards approving new drugs that pharmaceutical companies bring on the market.

Members asked the ADM to respond in writing to a series of questions: How much does the TI at UBC cost to operate? What are its terms of reference? Who is it accountable to? How are the members chosen? Has there been any turnover in the last decade? Would the money being spent on the TI be more effectively spent on other areas? The follow-up correspondence was subsequently distributed to Members at the Public Accounts Committee meeting on March 5, 2007.

Maximus BC Contract

Another theme of the committee inquiry focused on the Maximus BC contract. The ADM reported that the performance of Maximus BC is evaluated under the contract, and that the provider has consistently met or exceeded service level requirements for PharmaCare operations over the past year. The OAG staff then explained that at the time of the OAG audit, the contract was very new and there was a concern that the ministry was accepting information without reviewing it. In response to a follow-up question, the Committee learned that the OAG has no firm plans to conduct a performance audit of the Maximus BC contract in the near future.

Committee Recommendation

The Committee endorses the 15 recommendations of the Auditor General's 8th Report for 2005/06, *Managing PharmaCare: Slow Progress Toward Cost-Effective Drug Use and a Sustainable Program*, and recommends the same to the Legislative Assembly.

DOCUMENTS DISTRIBUTED

DECEMBER 8, 2006

Office of the Auditor General of British Columbia, Financial Statement Audit Coverage Plan for Fiscal Years 2007/2008 through 2009/2010, November 2006

Office of the Auditor General of British Columbia, Presentation to the Public Accounts Committee Re Improving the Audit Follow-up Process

Correspondence from Arn van Iersel, CGA, Auditor General (Acting) to Mr. Rob Fleming, Chair and Ms. Joan McIntyre, Deputy Chair, Select Standing Committee on Public Accounts, December 15, 2006

FEBRUARY 2, 2007

Office of the Auditor General, Presentation to Public Accounts Committee Re 2010 Olympic and Paralympic Games Report, February 2, 2007

"Cost of the Olympic and Paralympic Games," [New South Wales] Auditor General's Report to Parliament 2002, Volume Two

British Columbia 2010 Olympic and Paralympic Winter Games Secretariat, Presentation to Select Standing Committee on Public Accounts

Office of the Auditor General of British Columbia, Presentation to Public Accounts Committee Re Managing PharmaCare Report, February 2, 2007

Ministry of Health, BC PharmaCare Response to the OAG Report: *Managing PharmaCare*, Presentation to Select Standing Committee on Public Accounts, February 2, 2007

Correspondence from Ministry of Health, Office of the Assistant Deputy Minister, Pharmaceutical Services Division to Chair, Public Accounts, February 22, 2007.